



**STATE OF HAWAII**  
**DEPARTMENT OF HUMAN RESOURCES DEVELOPMENT**

Audit of Expenditures  
For the Quarter Ended September 30, 2003

Internal Audit Report No. 05-27

AUDIT DIVISION  
Department of  
Accounting and General Services  
April 5, 2005

## EXECUTIVE SUMMARY

The Department of Accounting and General Services, Audit Division conducted an audit of the Department of Human Resources Development's (the Department) expenditures for the quarter ended September 30, 2003 to determine whether expenditure payments made by the Department are legal, recorded to the proper account, in compliance with applicable laws, rules and regulations, policies and procedures, and established accounting and internal control systems.

The mission of the Department is to administer the State of Hawaii's (State) personnel program, provide administrative support services to statutorily and executively assigned commissions or boards, and represent the State on other commissions and committees.

With respect to the audit of the Department's expenditures, we noted the following:

- Four vendor invoices totaling \$919.04 did not have on the invoice a "Goods/Services Received in Satisfactory Condition" stamp, signed and dated by an authorized state employee to certify the satisfactory delivery of the goods or performance of the services, as required under the established accounting system.
- A purchase order supporting a check for \$580.48 was prepared after the receipt of the related vendor's invoice. The established accounting system requires purchase order forms be prepared prior to receiving the vendor invoice to document authorization to purchase specified merchandise or the rendering of certain services.
- A purchase of equipment with a cost of \$3,499.82 was not procured in compliance with Section 103D-305, Hawaii Revised Statutes (HRS), and State Procurement Office (SPO) Procurement Circular 2003-1.

We recommend the Department establish controls to comply with Section 40-2, HRS, the State's established accounting system, Section 103D-305, and SPO Procurement Circular 2003-1.

In response, the Department concurs with the audit findings and will implement controls to comply with Section 40-2, HRS, the State's established accounting system, Section 103D-305, and SPO Procurement Circular 2003-1.

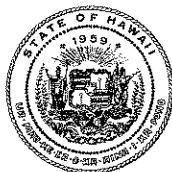
**STATE OF HAWAII  
DEPARTMENT OF HUMAN RESOURCES DEVELOPMENT**

**TABLE OF CONTENTS**

	<u>Page</u>
I. INTRODUCTORY SECTION	
Letter of Transmittal	1
Summary	2
Introduction	2
Background	2
Scope, Objectives, and Methodology	2
Audit Procedures Performed	3
II. NONCOMPLIANCE SECTION	
Audit Findings with Recommendations:	
Audit Finding No. 1 – Satisfactory Receipt of Goods and Services	5
Audit Finding No. 2 – Purchase Order Prepared After the Related Vendor Invoice Received	5
Audit Finding No. 3 – Small Purchases	6
III. DEPARTMENT'S RESPONSE	

## INTRODUCTORY SECTION

LINDA LINGLE  
GOVERNOR



Russ K. Saito  
Comptroller

Katherine H. Thomason  
Deputy Comptroller

**STATE OF HAWAII**  
**DEPARTMENT OF ACCOUNTING**  
**AND GENERAL SERVICES**

P.O. BOX 119  
HONOLULU, HAWAII 96810-0119

05.0089

April 5, 2005

The Honorable Kathleen N. A. Watanabe  
Director of Human Resources Development  
Department of Human Resources Development  
State of Hawaii  
235 South Beretania Street  
Honolulu, Hawaii 96813

In accordance with the provisions of Section 26-6 of the Hawaii Revised Statutes, I present you with a financial audit report on the Department of Human Resources Development's expenditures for the quarter ended September 30, 2003.

The report is presented in two sections: introductory and noncompliance. The introductory section includes this transmittal letter, a summary of services, introduction, background, scope, objectives, methodology, and audit procedures performed. The noncompliance section includes a schedule of audit findings with recommendations.

Sincerely,

RUSS K. SAITO  
State Comptroller

## **SUMMARY**

The Department of Accounting and General Services, Audit Division conducted an audit of the Department of Human Resources Development's (the Department) expenditures for the quarter ended September 30, 2003 to determine whether expenditure payments made by the Department are legal, recorded to the proper account, in compliance with applicable laws, rules and regulations, policies and procedures, and established accounting and internal control systems.

## **INTRODUCTION**

Authority to conduct this audit resides in Section 26-6, Hawaii Revised Statutes (HRS), which authorizes after-the-fact audits to determine the legality of expenditures and the accuracy of the accounts. In addition, Section 40-2, HRS, requires the State Comptroller to ensure that all accounting and internal control systems of departments in the executive branch of the State government adhere to prescribed policies and procedures and accounting principles generally accepted in the United States of America.

This audit is part of the Audit Division's 2004-2005 Audit Plan. The Audit Division maintains its organizational independence in accordance with Section 3.27, Independence Standards, *Government Auditing Standards* (2003 Revision).

Audit fieldwork took place January 14, 2005 through February 24, 2005 at the Department's fiscal office at 235 Beretania Street, Honolulu, Hawaii. John K. Kubota, CPA, Supervising Auditor, conducted the audit under the supervision of Wayne L. Chu, CPA, Audit Division Administrator.

## **BACKGROUND**

The Department was created in 1959 by the Hawaii State Government Reorganization Act of 1959 (Act 1, Second Special Session Laws of Hawaii 1959). The primary functions of the Department are to administer the State personnel program, provide administrative support services to statutorily and executively assigned commissions or boards, and represent the State on other commissions and committees.

## **SCOPE, OBJECTIVES, AND METHODOLOGY**

The audit includes an examination of expenditures paid by the Department during the period July 1, 2003 through September 30, 2003. The audit objectives are to determine the legality of expenditures, accuracy of accounts, and the Department's compliance with established accounting and internal control systems.

This report includes detail testing of a sample of expenditure transactions and does not include the Department's other financial transactions, such as payroll, cash receipts, journal vouchers (JVs), and workers' compensation claims payments. The audit was conducted in accordance

Department of Human Resources Development  
Audit of Expenditures Report

---

with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

A listing of the Department's expenditures for the quarter ended September 30, 2003, from the State's Financial Accounting and Management Information System, was used for sampling and verification to source documents during the audit. The Department processed for payment 4,142 expenditure transactions totaling \$4,508,970.57 during the quarter ended September 30, 2003.

We examined 30 randomly selected expenditure transactions, totaling \$79,288.88, as outlined below:

	Total Population	Sample	
		Count	Amount
Expenditures	\$ 263,504.43	29	\$77,051.38
Contract expenditures – others	12,330.00	1	2,237.50
Workers' compensation benefit payments	2,065,096.06	-	-
Payroll expenditures and JVs	2,168,040.08	-	-
Totals	<u>\$4,508,970.57</u>	<u>30</u>	<u>\$79,288.88</u>

To gain an understanding of the Department's procedures in processing expenditures for payment and documenting the internal control system related to those procedures, we interviewed appropriate personnel, reviewed applicable available written policies and procedures, and documented our understanding of the established accounting system and internal controls in place during the audit period.

#### AUDIT PROCEDURES PERFORMED

We reviewed documents supporting expenditures such as vendor's invoices, purchase orders, summary warrant vouchers, requisition forms, procurement documents, contracts and inventory records to determine compliance with applicable laws, rules and regulations, policies and procedures, and compliance with established accounting and internal control systems.

Based on our detail testing of expenditure transactions, we found 29 expenditures and 1 contract expenditure to be legal expenditures of the Department, properly recorded and processed by the Department, and in compliance with established accounting and internal control systems, except for the 3 audit findings presented in the noncompliance section of the report.

## NONCOMPLIANCE SECTION



## **AUDIT FINDINGS WITH RECOMMENDATIONS**

The procedures enumerated below were performed to determine whether payments made by the Department are legal, recorded to the proper account, in compliance with applicable laws, rules and regulations, policies and procedures, and established accounting and internal control systems.

### **AUDIT FINDING NO. 1 – SATISFACTORY RECEIPT OF GOODS AND SERVICES**

Section 40-2, HRS, establishes the accounting system used by State departments. The State's Accounting Manual describes in detail the accounting system. The State's accounting system uses purchase order forms to document authorization to purchase specified merchandise or the rendering of certain services. The State's accounting system uses a "Goods/Services Received in Satisfactory Condition" stamp, signed and dated by an authorized state employee to certify the satisfactory delivery of the goods or performance of the services. The control is the authorized state employee's certification.

We noted four vendor invoices totaling \$919.04 were processed for payment without the "Goods/Services Received in Satisfactory Condition" stamp on the invoice.

#### **Procedures Performed**

We interviewed the Department's administrative services officer. We examined the vendors' invoices for the "Goods/Services Received in Satisfactory Condition" stamp, signatures, and dates. We found no "Goods/Services Received in Satisfactory Condition" stamp, signed and dated by an authorized state employee to certify the satisfactory delivery of the goods or performance of the services, on each of the vendor invoices processed for payment.

#### **Recommendation**

The Department shall establish controls to comply with Sections 40-2, HRS and the State's Accounting Manual. The Department shall ensure that all vendor invoices processed for payment are stamped with a "Goods/Services Received in Satisfactory Condition" stamp, signed and dated by and authorized state employee, before submitting to the Department of Accounting and General Services for payment.

### **AUDIT FINDING NO. 2 – PURCHASE ORDERS PREPARED AFTER THE RELATED VENDOR INVOICE RECEIVED**

Section 40-2, HRS, establishes the accounting system used by State departments. The State's Accounting Manual describes in detail the accounting system. The State's accounting system uses purchase order forms to document authorization to purchase specified merchandise or the

rendering of certain services. The control is the authorized state employee that approves the purchase of the goods or services by signing and dating the purchase order.

We found that a purchase order supporting a check of \$580.48 was prepared after the receipt of the related vendor invoice.

### **Procedures Performed**

We interviewed the Department's administrative services officer. We examined the purchase orders, vendor invoices, and summary warrant voucher for the check. We compared the purchase order date, state employee authorizing the purchase, to the related vendor invoice date. We noted that the purchase order date was after the vendor invoice date. This is not in compliance with the State's established accounting system.

### **Recommendation**

The Department shall establish controls to comply with Sections 40-2, HRS and the State's Accounting Manual, and prepare purchase orders, in accordance with established policies and procedures, to authorize the purchase of goods and services before the goods are delivered or services rendered.

### **AUDIT FINDING NO. 3 – SMALL PURCHASES**

Section 103D-305, HRS, states that procurements of less than \$25,000 for goods, services, or construction shall be made in accordance with procedures set forth in rules adopted by the policy board that are designed to ensure administrative simplicity and as much competition as is practicable. Procurement Circular 2003-01, dated February 13, 2003, issued by the State Procurement Office (SPO) pursuant to Section 103D-305, HRS, contains the procedures applicable to the purchase of goods and services less than \$25,000.

Procurement Circular 2003-01 requires, for purchases between \$1,000 and \$15,000, the completion of SPO Form-10, the solicitation of a minimum of three quotations, with the same description or specifications, from each vendor, and the approval of the procurement officer or designee. The award should be made to the vendor with the most advantageous quotation. If the award is to other than the vendor with the lowest quotation, an explanation should be in Part D of the SPO Form-10.

The Department purchased equipment with a cost of \$3,499.82 on August 12, 2003. This purchase was subject to Procurement Circular 2003-1. Quotations were obtained from 3 vendors, one was a Hawaii vendor and the other two were non-Hawaii vendors. The award was made to the Hawaii vendor at a higher quotation. Part D, SPO Form-10 filed with the invoice, states that the department did not select the lowest quotation due to Act 5, Session Laws of Hawaii (SLH), Third Special Session 2001. Act 5, SLH, gave preference to Hawaii vendors for

Department of Human Resources Development  
Audit of Expenditures Report

---

the procurement of goods, services and construction in order to revive the economy after the terrorist attacks on September 11, 2001. However, Act 5, SLH had been repealed on June 30, 2002, prior to the date of the award.

**Procedures Performed**

We interviewed the Department's administrative services officer. We examined the purchase orders, vendor invoices, and summary warrant voucher, and the SPO Form-10. We reviewed the SPO Form-10 for compliance with Section 103D-305, HRS and Procurement Circular 2003-1.

The explanation used in Part D, SPO Form-10, was not acceptable under Procurement Circular 2003-1.

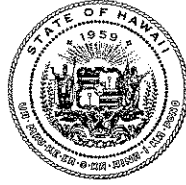
Therefore, the Department's procurement of equipment with a cost of \$3,499.82 was not in compliance with Section 103D-305, HRS and Procurement Circular 2003-1.

**Recommendation**

The Department shall establish controls to comply with Sections 103D-305, HRS and the Procurement Circular 2003-1 for Small Purchases.

## DEPARTMENT'S RESPONSE

LINDA LINGLE  
GOVERNOR OF HAWAII



KATHLEEN N. A. WATANABE  
DIRECTOR

JANICE T. KEMP  
DEPUTY DIRECTOR

**STATE OF HAWAII**  
**DEPARTMENT OF HUMAN RESOURCES DEVELOPMENT**

235 S. BERETANIA STREET  
HONOLULU, HAWAII 96813-2437

March 30, 2005

TO: The Honorable Russ K. Saito, Comptroller  
Dept. of Accounting & General Services

FROM: Kathleen N. A. Watanabe, Director  
Dept. of Human Resources Development

SUBJECT: Internal Audit Report No. 05-27

The Department of Human Resources Development has had an opportunity to review the Internal Audit Report No. 05-27 and the Audit Findings.

Audit Finding No. 1

Concur. The Department will ensure that all vendor invoices processed for payment are stamped with a "Goods/Services Received in Satisfactory Condition" stamp, signed and dated by an authorized state employee, before submitting to the Department of Accounting and General Services for payment.

Audit Finding No. 2

Concur. The Department will ensure that a purchase order will be prepared before the authorization of the purchase of goods and services are delivered or services rendered. The item that was cited was a Maintenance Contract whereby a Purchase Order was prepared for payment upon receipt of the contract. Based on the instructions and explanation provided at the exit interview regarding the need for processing of encumbrances on these types of maintenance contracts, instructions will be issued and controls established for future purchases of this nature.

Audit Finding No. 3.

Concur. The Department will ensure that additional controls are established to comply with Sections 103D-305, HRS and the Procurement Circular 2003-1 for Small Purchases.

Should you have any questions please contact me at 587-1100 or LeNora Wee, Administrative Services Officer at 587-1150.